

Financial Statements
Coe Township
Isabella County, Michigan
March 31, 2006



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Coe Township	County Isabella
Fiscal Year End 3-31-2006	Opinion Date 7-17-2006	Date Audit Report Submitted to State 9-29-2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

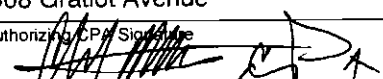
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	Not required	
Certified Public Accountant (Firm Name) Roslund, Prestage & Company, P.C.		Telephone Number 989-463-6123	
Street Address 308 Gratiot Avenue		City Alma	State MI
Authorized CPA Signature 		Printed Name CHAD R. PAYTON, CPA	Zip 48801
		License Number 21946	

Coe Township
Table of Contents
March 31, 2006

Independent Auditor's Report

Management's Discussion and Analysis 1 - IV

Basic Financial Statements:

Government-Wide Financial Statements:

Statement of Net Assets 1

Statement of Activities 2

Fund Financial Statements:

Balance Sheet – Governmental Funds 3

Reconciliation of Fund Balances on the Balance Sheet for
Governmental Funds to Net Assets of Governmental
Activities on the Statement of Net Assets 4

Statement of Revenues, Expenditures and Changes in Fund
Balances – Governmental Funds 5

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities 6

Statement of Net Assets – Fiduciary Funds 7

Notes to the Financial Statements 8-17

Required Supplemental Information:

Budgetary Comparison Schedule 18

Government Auditing Standards Report 19-20



INDEPENDENT AUDITOR'S REPORT

Coe Township
Isabella County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Coe Township, as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township, as of March 31, 2006, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated July 17, 2006, on our consideration of the Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages I-IV, and budgetary comparison information on page 18, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Roslund, Prestage & Co, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

July 17, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Coe Township
Management's Discussion and Analysis
April 1, 2005 ~ March 31, 2006**

We, the Board of Coe Township, Isabella County, Michigan, offer citizens of the Township our financial statements with this narrative overview and analysis of the financial activities of Coe Township for the fiscal year ending March 31, 2006.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Coe Township's basic financial statements. The Township's basic financial statements comprise three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements.

This report also contains other supplementary information, in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The ***government-wide financial statements*** are designed to provide readers with a broad overview of the Township's finances in a manner similar to a private-sector business.

The ***statement of net assets*** presents information on all of the Township's assets and liabilities, with the difference between the two reported as ***net assets***. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Township's financial position is improving or deteriorating.

The ***statement of activities*** presents information showing how the Township's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Both the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (***governmental activities***) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (***business-type activities***). The governmental activities of the Township include general government, public safety and road projects.

The government-wide financial statements can be found on pages 1-2 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Coe Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories: Governmental funds and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, government fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, citizens may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Coe Township adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided on page 18 for the general fund and other major funds to demonstrate compliance with this budget.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 8-17 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Township's budget to actual comparison. Required supplementary information can be found on page 18 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the government's financial position. In the case of Coe Township, total assets, including capital assets, exceeded liabilities by \$659,375 at the close of the most recent fiscal year.

The unrestricted net assets of Coe Township exceeded its liabilities at the close of the most recent fiscal year by \$239,396, which may be used to meet the Township's ongoing obligations to citizens and creditors.

One of the most significant portions of the Township's net assets reflects its careful investment in capital assets (e.g., land, building, equipment) over the years with no related debt remaining to acquire these assets. The Township uses these capital assets to provide services to citizens; consequently, these assets **are not** available for future spending.

Governmental activities decreased the Township's net assets by \$15,020. *Key elements of this decrease are as follows:*

1. Updating computers and software for Township elected officials.
2. Offering Spring Clean Up to the Township residents.
3. Computerizing Township Tax Roll Property Cards.

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

Governmental Funds Financial Analysis

The focus of the Township's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. As of the close of the current fiscal year, Township's governmental funds reported an ending fund balance of \$239,396, an increase of \$43,495 from the 2004 year fund balance.

At the end of the current fiscal year, unreserved fund balance for the general fund was \$217,396 or 103% of total general fund expenditures.

The Township's total expenditures increased by \$11,596 over the 2004 fiscal year expenditures.

General Fund Budgetary Highlights

The difference between the original budget and final amended budget was a \$17,290 increase in expenses and can be briefly summarized as follows – Increase in Township share of drain assessment expenses.

Capital Asset and Debt Administration

Capital Assets. The Township's investment in capital assets for its governmental activities as of March 31, 2006, amount to \$419,979, which is net of accumulated depreciation. This investment in capital assets includes: land, buildings, improvements, and cemetery & park facilities.

Major capital asset events during the current fiscal year include the following:

1. Lap top computers for assessor and clerk.
2. Software for clerk's computer.

Details of the Township's capital assets are in the notes to the financial statements on page 15.

Long-Term Debt. At the end of the current fiscal year, the Township had no major debts left outstanding.

Economic Factors and Next Year's Budgets and Rates:

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means further reductions in state-shared revenues are a possibility. However, State-shared revenues are expected to remain the same in the 2006-2007 fiscal year as they were in the previous year. The Township budgeted for a slight decrease in expenditures to offset the current rate of inflation and a slight reduction in its millage rate. The Township's millage rate was reduced again by the Headlee Amendment rollback to 0.9867 for general operating purposes. Also considered was the low return of interest payments on the Township's money-market and CDs, all of which figure into the general fund appropriations. These factors were all considered in preparing the Township's budget for the 2006-2007 fiscal year.

The Township presented a balanced budget in the 2006-2007 fiscal year, although some funding is expected to be withdrawn from the current fund balance account held in reserve to meet budgeted appropriations.

No rate increases for sale of cemetery lots or cemetery services rendered are proposed for the coming year. Township revenues from its property tax millage, property tax collection fees and State revenue sharing are expected to be comparable to the previous year. The Township is expecting little change in its revenues for the next fiscal year.

Request for Information

This financial report is designed to provide a general overview of the Coe Township's finances for all those with an interest in the Township's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Clerk of Coe Township in writing at PO Box 477, Shepherd, Michigan 48883.

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

Coe Township
Statement of Net Assets
March 31, 2006

	<u>Governmental Activities</u>
Assets	
Current assets	
Cash and cash equivalents	\$222,755
Due from other governmental units	16,568
Due from agency fund	<u>73</u>
Total current assets	239,396
Noncurrent assets	
Capital assets, net of accumulated depreciation	<u>419,979</u>
Total assets	<u>659,375</u>
Liabilities	
Current liabilities	
Accounts payable	<u>-</u>
Net Assets	
Invested in capital assets, net of related debt	419,979
Unrestricted	<u>239,396</u>
Total net assets	<u><u>\$659,375</u></u>

See Accompanying Notes to Financial Statements.

Coe Township
Statement of Activities
For the year ended March 31, 2006

Functions/Programs	Program Revenues		Net (expense) revenue and changes in net assets
	Expenses	Charges for Services	
Primary Government			
General government	\$145,990	\$19,317	(\$126,673)
Public safety	40,997	-	(40,997)
Public works	40,685	-	(40,685)
Community and economic development	6,384	1,130	(5,254)
Total primary government	<u>\$234,056</u>	<u>\$20,447</u>	<u>(213,609)</u>
General Revenues			
Property taxes			77,341
State shared revenues			99,586
Unrestricted investment earnings			7,782
Miscellaneous revenues			<u>13,880</u>
Total general revenues			198,589
Change in net assets			(15,020)
Net assets - beginning of year			<u>674,395</u>
Net assets - end of year			<u><u>\$659,375</u></u>

See Accompanying Notes to Financial Statements.

FUND FINANCIAL STATEMENTS

Coe Township
Balance Sheet
Governmental Funds
March 31, 2006

	<u>General Fund</u>
Assets	
Cash and cash equivalents	\$222,755
Due from other governmental units	16,568
Due from other funds	<u>73</u>
Total assets	<u><u>\$239,396</u></u>
 Liabilities and Fund Balance	
Liabilities	
Accounts payable	<u>-</u>
 Fund Balance	
Designated for cemetery equipment	\$1,000
Designated for roads	21,000
Fund balance - unreserved	<u>217,396</u>
Total fund balance	<u>239,396</u>
Total liabilities and fund balance	<u><u>\$239,396</u></u>

See Accompanying Notes to Financial Statements.

Coe Township
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Assets of Governmental Activities on the Statement of Net Assets
for the Year Ended March 31, 2006

Total fund balance - governmental funds	\$239,396
---	-----------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Cost of capital assets	510,142
Accumulated depreciation	<u>(90,163)</u>

Net assets of governmental activities	<u><u>\$659,375</u></u>
---------------------------------------	-------------------------

See Accompanying Notes to Financial Statements.

Coe Township
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended March 31, 2006

	<u>General Fund</u>
Revenues	
Taxes and penalties	\$77,341
Licenses and permits	1,130
State grants	99,586
Charges for services	19,317
Interest and rentals	7,782
Other revenues	<u>4,280</u>
Total revenues	<u>209,436</u>
Expenditures	
Legislative	9,563
General government	92,361
Public safety	40,997
Public works	40,685
Community and economic development	6,384
Other	16,795
Capital outlay	<u>4,516</u>
Total expenditures	<u>211,301</u>
Excess of revenues over (under) expenditures	(1,865)
Fund balance - beginning of year	<u>241,261</u>
Fund balance - end of year	<u><u>\$239,396</u></u>

See Accompanying Notes to Financial Statements.

Coe Township
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds
to the Statement of Activities
for the Year Ended March 31, 2006

Net change in fund balances - total governmental funds (\$1,865)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Add: capital outlay	4,516
Add: donated items	9,600
Deduct: depreciation expense	<u>(27,271)</u>

Change in net assets of governmental activities (\$15,020)

See Accompanying Notes to Financial Statements.

Coe Township
Statement of Net Assets
Fiduciary Funds
Year Ended March 31, 2006

	<u>Tax Collection</u>
Assets	
Cash	<u>\$73</u>
Total assets	<u><u>\$73</u></u>
Liabilities	
Due to other funds	<u>\$73</u>
Total liabilities	<u><u>\$73</u></u>

See Accompanying Notes to Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

Coe Township
Notes to Financial Statements
March 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of Coe Township (the Township) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township.

New Accounting Standards Adopted

In fiscal year 2006, the Township adopted three new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- # 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – (an Amendment to No. 34)*
- # 38 – *Certain Financial Statement Note Disclosures.*

Statement No. 34 (as amended by Statement No. 37) represents a very significant change in the financial reporting model used by state and local governments.

Statement No. 34 requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund or account group, but distinguish between the Township's governmental activities, business-type activities, and activities of its discretely presented component units on the statement of net assets and statement of activities. Significantly, the Township's statement of net assets includes both noncurrent assets and noncurrent liabilities of the Township, which were previously recorded in the General Fixed Assets Account Group and the General Long-term Debt Account Group.

In addition to the government-wide financial statements, the Township has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus. The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Coe Township
Notes to Financial Statements
March 31, 2006

Statement No. 34 also requires certain required supplementary information in the form of *Management's Discussion and Analysis* which includes an analytical overview of the Township's financial statements. In addition, a budgetary comparison statement is presented that compares the adopted and modified budget for all major funds with actual results.

Statement No. 37 amends GASB Statements No. 21 and 34. The amendments to Statement 21 are necessary because of the changes to the fiduciary fund structure required by Statement 34.

GASB has issued Statement No. 38, *Certain Financial Statement Note Disclosures* which modifies, establishes and rescinds certain financial statement disclosure requirements.

Reporting Entity

The Township is governed by an elected five-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the Township and its component units; entities for which the Township is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government.

Joint Venture

The Township is a member of the Shepherd Tri-Township Fire Department, which is a joint venture between the Township and the Village of Shepherd, Chippewa Township, and Lincoln Township. All units are located in Isabella County. Each unit names two members and an alternate from its governmental body to serve as the Fire Department's Advisory Board. The Advisory Board is responsible for adopting the annual budget. Under the arrangement, each unit bears its share of the cost according to a formula which takes the ratio of population and state equalized valuation which each unit involved bears to the total population and state equalized valuation of all units and averages the two. Annual contributions are made based upon the budget. The following financial information of the joint venture was obtained from the audited financial statements of the Shepherd Tri-County Fire Department for the year ended November 30, 2005, the most recent financial statements available:

Total Assets	\$161,268
Total Liabilities	-
Total Equity	161,268
Total Revenues	233,323
Total Expenditures	\$216,455

Coe Township
Notes to Financial Statements
March 31, 2006

Capital assets at cost, which are not included in the above numbers, totaled \$1,790,190.

For the Fire Department's year ended November 30, 2005 the share of the annual budget for each participating unit was:

Governmental Unit	Share of Budget
Village of Shepherd	14%
Chippewa Township	44%
Lincoln Township	23%
Coe Township	19%
Total	100%

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to consumers who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Coe Township
Notes to Financial Statements
March 31, 2006

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, claims and judgments, are recorded only when payment is due.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fiduciary Fund Financial Statements - Fiduciary funds account for assets held by the Township as a trustee or agency capacity on behalf of others and, therefore, are not available to support Township operations. The reporting focus is upon net assets and changes in net assets and employs accounting principles similar to proprietary funds. Fiduciary funds are not included in the government-wide financial statements as they are not an asset of the Township available to support Township's operations. The Township currently maintains an agency fund to account for the monies collected and paid to various governmental entities for property tax collections.

The Township reports the following major funds:

Governmental Funds - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Coe Township
Notes to Financial Statements
March 31, 2006

Budgets and Budgetary Accounting

Budgets are adopted by the Township for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Property Taxes

Property taxes are levied on each December 1st on the taxable valuation of property located in the Township as of the preceding December 31st. These taxes are due on February 14th with the final collection date of February 28th before they are added to the county delinquent tax rolls.

For Township operations, the 2005 Taxable Valuation of the Township totaled \$63,493,018, on which .9931 mills were levied.

The total 2005 levy for the Township was \$63,055.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Inventories

Inventories, which are immaterial in amount, are not recognized as an asset in these financial statements. Inventories are recorded as expenditures at the time of purchase in the governmental and proprietary fund types.

Deposits

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit.

Coe Township
Notes to Financial Statements
March 31, 2006

Receivables

Receivables have been recognized for all significant amounts due the Township in accordance with the accounting principles used for the particular fund. Valuation reserves have not been provided since their collection is not considered doubtful and any uncollected amounts would be immaterial.

Capital Assets

Capital assets, which include property, plant and equipment, of the governmental activities are reported in the governmental column in the government-wide financial statements. Capital assets of the proprietary funds are reported in the statement of net assets of the proprietary funds. Capital assets are defined by the Township as individual assets with an initial cost equal to or more than \$1,000 and an estimated useful life in excess of one year.

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Township does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Township are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Land	Not Applicable – Not Depreciated
Buildings & Improvements	25
Equipment	5
Computers	3

Coe Township
Notes to Financial Statements
March 31, 2006

Governmental Fund – Fund Balance Designations

The governmental fund financial statements present fund balance designations which represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end. The Township does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended March 31, 2006, the Township did not incur any expenditure in excess of the amounts appropriated, as shown on page 18 of this report.

NOTE 3 - DETAILED NOTES

Cash and Cash Equivalents

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Township's deposits are in accordance with statutory authority.

Coe Township
Notes to Financial Statements
March 31, 2006

At March 31, 2006, the carrying amount of the Township's cash and cash equivalents was \$222,755 as follows:

Cash Deposits	\$100,755
Certificate of Deposit	122,000
Total	\$222,755

At year end, the carrying amount of the Township's cash deposits and certificate of deposits was \$222,755 and the bank balance was \$229,098. Of the bank balance, \$200,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks.

The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits government funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Capital Assets

A summary of changes in general fund capital assets follows:

	April 1, 2005	Additions	Disposals	March 31, 2006
Land	\$3,750	-	-	\$3,750
Buildings & Improvements	442,750	-	-	442,750
Equipment	39,526	\$9,600	-	49,126
Computers	10,000	4,516	-	14,516
Sub-totals	496,026	14,116	-	510,142
Accumulated Depreciation	(62,892)	(27,271)	-	(90,163)
Totals	\$433,134	(\$13,155)	-	\$419,979

Depreciation expense was charged to the general government function.

Coe Township
Notes to Financial Statements
March 31, 2006

Risk Management

The Township is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Township has purchased commercial insurance from independent insurance providers. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

Employees Retirement System – Defined Contribution Pension Plan

Plan Description

Coe Township participates in the John Hancock Defined Contribution Pension Plan for Michigan Township Employees. The name of the plan is the Township of Coe Group Pension Plan.

All members of the Township Board and all Township Employees are eligible to participate in the plan. As of March 31, 2006, the pension plan's current membership was 5 employees.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined. The amounts participants receive depend solely on the amount contributed to the participant's account and the returns earned on those contributions.

Funding Policy

Employer contributions for each participant will be 20% of compensation. There are no employee contributions to this plan.

Benefits are 100% vested upon plan participation.

During the year, the Township's actual contributions to the plan amounted to \$5,150.

No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees.

Coe Township
Notes to Financial Statements
March 31, 2006

Building Inspection Department Fund

Public Act 245 of 1999 was signed on December 28, 1999 and took immediate effect. This act amends the State Construction Code Act (Public Act 230 of 1972) and requires, among other things, the establishment of a special revenue fund to account for the revenues and expenditures associated with issuing building permits, examining plans and specifications, inspecting construction before issuing permits, and issuing certificates of use and occupancy.

The Township has not established this fund because the fee structure is not intended to recover the full cost and the Township has the ability to track the full cost and revenues of this activity without creating a separate fund.

The revenues generated under this act for the year ended March 31, 2006 were \$1,130. The expenditures incurred for this activity during the year ended March 31, 2006 were \$6,384.

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

Coe Township
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds - Budget to Actual
Year Ended March 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes and penalties	\$70,850	\$70,850	\$77,341	\$6,491
Licenses and permits	2,000	2,000	1,130	(870)
State grants	98,887	98,887	99,586	699
Charges for services	23,860	23,860	19,317	(4,543)
Interest and rentals	5,000	5,000	7,782	2,782
Other revenues	5,000	5,000	4,280	(720)
Total revenues	<u>205,597</u>	<u>205,597</u>	<u>209,436</u>	<u>3,839</u>
Expenditures				
Legislative	12,040	12,040	9,563	2,477
General government	97,574	98,269	92,361	5,908
Public safety	40,000	41,000	40,997	3
Public works	39,000	53,495	40,685	12,810
Community and economic development	7,100	7,100	6,384	716
Other	18,700	19,800	16,795	3,005
Capital outlay	4,516	4,516	4,516	-
Total expenditures	<u>218,930</u>	<u>236,220</u>	<u>211,301</u>	<u>24,919</u>
Excess of revenues over (under) expenditures	(13,333)	(30,623)	(1,865)	28,758
Fund balance - beginning of year	<u>241,261</u>	<u>241,261</u>	<u>241,261</u>	<u>-</u>
Fund balance - end of year	<u>\$227,928</u>	<u>\$210,638</u>	<u>\$239,396</u>	<u>\$28,758</u>

See Accompanying Notes to Financial Statements.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Township Board
Coe Township
Isabella County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Coe Township (the Township) as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements and have issued our report thereon dated July 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Township in a separate letter dated July 17, 2006.

This report is intended solely for the information and use of management and the Township Board and is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & Co, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

July 17, 2006



Management Letter

Members of the Board
Coe Township
Shepherd, Michigan

In planning and performing our audit of the financial statements of Coe Township for the fiscal year ended March 31, 2006, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our audit report dated July 17, 2006, on the financial statements of Coe Township.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience.

Sincerely,

Roslund, Prestage & Co, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

July 17, 2006

Organizational Structure

The size of the Township's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Township Board remains involved in the financial affairs of the Township to provide oversight and independent review functions.

Adopt a Capitalization Policy and Expense Small Items

We noted during our audit that there is no established guideline concerning which property and equipment acquisitions are to be capitalized. We recommend that the Township establish a capitalization policy whereby all purchases over a minimum threshold (i.e. \$1,000) and having a useful life of one year or more are capitalized. This policy should be in writing and communicated to those who code property invoices to ensure the policy is consistently followed. Also, we recommend that capitalizable expenditures be coded to an account separate from those expenditures which will not be capitalized. This will result in a more uniform treatment of property and equipment and allow the Township to continue to assess current expenditures along with identifying significant assets that will later be capitalized.

Disbursements System

We noted during our review of the disbursements system that payments were made from statements and that the documentation for payments was kept in different locations. We recommend that payments be made from invoices only. This will allow the Township a safeguard against double payments of liabilities and will reduce opportunities for fraudulent purchases, as a statement often will not provide a detail of items obtained. Also, we recommend that documentation for payments made be kept in one location. If there is a desire to keep files for specific vendors showing activity throughout the year, we recommend taking copies of the documentation and using the copies for those files. This will result in a more concise and complete system of record keeping and allow for easier accessibility.